

Statement of Senator Hollings
Hearing on the Sale of Airline Tickets Over the Internet
July 20, 2000

Good morning. I want to thank the Chairman for holding this hearing on the sale of airline tickets through the Internet.

This Committee has a long history of looking at the distribution of air fares and other information through computers. We held several hearings on Computer Reservation Systems (CRS's) in the 1980's to review what the carrier/owners of the CRSs were attempting to do to the "have-nots". Today, with the creation of new technology, we again are at that same point. This time, the use of the Internet Websites, even though the site will be owned by the airlines, is one that operates outside of the CRS rules that were crafted in the 1980's by the Civil Aeronautics Board, and that now fall under the auspices of the Department of Transportation (DOT).

Under the new venture, the big carriers have agreed to set up a new Website to sell tickets. There are lots of these types of joint venture arrangements among companies to use the Web to conduct business. I want to encourage new technology and new innovations that benefit consumers. However, most of the new joint venture Websites that have been created involve joint purchasing, not joint selling. The collection of 80-85% of the U.S. domestic airline industry -- probably any industry -- should give us pause to consider the competitive ramifications. If the owners of Orbitz can demonstrate that there is no harm to competition, and that pricing by the carriers is not adversely affected, I hope consumers find all of these low fares.

Right now, to the traveler, it does not always seem that we have much price competition, at least for those fares that are publicly available. When 1 carrier announces a fare hike, the other major carriers either match it or reject it. The proposed fare then either sticks or is withdrawn. As a result, for many markets, the publicly available fares are the same for each market. These are the types of fares we see in the papers. However, there is a whole other side to pricing -- private fares that the carriers offer to corporations, travel agencies and vacation destinations, whether it is a golf resort or

Disneyland. These deals are negotiated separately and are targeted at specific groups of customers.

The carriers also publish on their own Website fares a series of fares, those that are publicly available through any travel agency, and fares that are only available through that Internet site. The carriers also send out targeted e-mails to selected customers, offering lower fares. Many times, these fares are for last minute flights that the carrier knows are not selling well -- a sort of last minute fire sale. These types of fares are difficult for another carrier to track. Under Orbitz, some of these fares will become "publicly available". This could be a benefit to the consumer -- he or she can instantly view all of these low fares through one Website, rather than have to search each and every air carrier Website. There is also a risk that must be considered. If carriers will be able to track, or be in a better position to track, pricing this may inhibit fare sales. This is potentially troubling and I know that DOT will look into this.

We also have the new electronic commerce navigators, like Travelocity and Expedia, that cut through all of the carrier price data to figure out the best fares for consumers. They use their search engines to plow through the Computer Reservation System data banks, effectively getting around the air carriers' "yield management" systems. Those systems try to squeeze the last dollar out of every consumer, offering seats at different prices, at different times for a particular flight.

We also know that the air carriers want to cut their distribution costs. Today, these costs are made up of a variety of fees -- travel agency commissions, running from about 5% of the price of a ticket to a flat \$10 per ticket for an Internet sale; and also CRS booking fees (about \$3-\$4 per segment booked).

The carrier/owners of Orbitz have complained that the CRS fees are too high, one of the reasons they cite for creating Orbitz. However, according to a June 1983 Report to Congress by the CAB, CRS booking fees were .25 cents in 1981, and there were different fares for different participants in a given CRS system. The Report also notes that CRS fees went up to \$2-\$3 per booking in 1982-3. While the major carriers

complain about high CRS fees, and argue that they need to create a new competitor to drive down the CRS costs, what appears to be happening is that Internet travel agencies refuse to give back any rebate to the air carriers that they may get themselves from the CRS vendors. It is not uncommon for a CRS vendor to give any large travel agency an incentive rebate on an annual basis based on certain sales thresholds. Travel agents, whether it is on line, like Travelocity or a traditional travel agent, do not give these rebates back to the carriers.

CRS vendors, like Worldspan, the company that is providing the CRS services for Orbitz, is owned by two of the largest air carriers (and equity participants in Orbitz). Worldspan may set CRS booking fees that are too high, but the owners might have something to say about those fees.

This is an area that I urge DOT to look at carefully. I know that the Department of Justice is in the process of reviewing Orbitz, as well.